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ABSTRACT

Congressman O'Hara, as chairman of the Subcommittee on Postsecondary Education, has presented a bill for student financial aid for higher education (H.R. 3471). The first question is how well do the provisions of the bill serve broader societal goals? After summarizing the bill and examining provisions and implications of the bill that affect the furtherance of equal access and a viable postsecondary educational system, the bill was found to do little in the way of furthering these goals and, in fact, it neutralizes some of the progress made by the Educational Amendments of 1972. H.R. 3471 offers nothing to encourage greater institutional diversity and in some instances it is positively harmful, discriminating against high-tuition schools and schools that price at cost. While it does include provision for protecting the student as consumer, this amounts to little more than recognition of the issue. Insofar as the bill enables more people to obtain some kind of postsecondary education, it promotes greater access; however, by using "the leverage of Federal student aid in such a way to encourage the creation and utilization of low-cost educational opportunities," the bill, in design and implementation, leads toward a kind of access that is neither equitable nor efficient. (Author/KE)

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A legislation review

STUDENT FINANCIAL AID FOR HIGHER EDUCATION: AN EVALUATION OF PROPOSED FEDERAL LEGISLATION

by

William D. Hyde, Jr.
Executive Secretary
National Academy of Education

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LEGISLATION REVIEW*

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STUDENT FINANCIAL AID FOR HIGHER EDUCATION: AN EVALUATION OF PROPOSED FEDERAL LEGISLATION[1]

Providing students with equal access to institutions of higher education and maintaining a viable postsecondary educational system designed to meet the needs of a pluralistic society have evolved, for one reason or another, into major societal goals in higher education. Like "life, liberty, and the pursuit of happiness," however, they are objectives that can be achieved only in degree. Considering the worthiness of these goals in a world of limited resources, controversies arise less over the goals

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[1] The bill, House Resolution 3471, was introduced in the House of Representatives on February 20, 1975. As of the end of August, hearings on the bill had been concluded.

themselves than over how resources should be allocated among them and how funds are spent in pursuit of a particular goal. In practice, the basic questions become what are we willing to sacrifice for tangible progress in a particular direction, and what is the most effective way of achieving that progress. The federal government is involved in achieving these goals through its role as a guardian of individual rights, guarantor of the development of a healthy, responsive market, and, more broadly, through the Constitutional provision allowing the government to tax for the general welfare.

Congressman O'Hara, as chairman of the Subcommittee on Postsecondary Education, has presented the bill for student financial aid for higher education (H.R. 3471), one of the primary tools by which the federal government may realize these national goals. In his words,

> this bill will make it possible for the student who lives at home and commutes to a public, low-tuition institution, to get a grant that meets his whole out-of-pocket cost. It is not a 'neutral' proposal as between kinds of schools. It does not pretend to be. I propose this measure quite openly as one way to utilize the leverage of Federal student aid in such a way as to encourage the creation and utilization of low-cost educational opportunities. (Congressional Record, 1975, p. H966)

Regardless of how well the specifics of the bill will achieve this purpose, the first question is how well do the provisions of the bill serve broader societal goals. Too often, it seems, when a piece of

major legislation is passed, whatever its merits and shortcomings, the effort in subsequent years is toward refinement, as though legislators were committed to getting a certain mileage out of the legislation without questioning whether or not the better tuned vehicle is headed in the right direction. My purpose here is to examine the provisions of this bill in order to ascertain what the proposed legislation will do toward promoting the societal goals of: (a) providing equal access and (b) encouraging viability in postsecondary education--for which this bill has serious consequences--and to scrutinize the likely effectiveness (and costs) of the provisions for achieving these objectives.

This review will not examine the specifics of H.R. 3471 point by point, but only provisions and implications of the bill that affect the furtherance of equal access and a viable postsecondary educational system. It is necessary that the reader be familiar with the major provisions of the bill, which are summarized for convenience in Appendix A.

EQUAL ACCESS AND A FEW RELATED MATTERS

My main criticism of the bill with respect to the goal of achieving equal access is not over its intention but its implementation. The intention in advocating a policy of equal access to higher education is to compensate socially, culturally, or economically disadvantaged people so that they may have opportunities similar to those of other people for attending higher educational institutions. The means implicit in H.R. 3471 to achieve equal access place several unnecessary constraints on the student and result in an inefficient use of resources.

Because of the confusion over what 'equal access' means, a short discussion of the definition and intent of equal access is given which should also clarify the basis of the criticisms that follow.

The goal of equal access has come to be equated with the notion that education is a right, that a person is entitled to an opportunity to better himself regardless of income or ability. Ideally, equal access means letting whoever wants to obtain a postsecondary education attend wherever he wishes provided, in practical terms of course, he meets academic admission requirements. Given limited resources, it implies differential compensation among groups of people so that an individual from any group has the same opportunity to attend a postsecondary educational institution (regardless of whether or not the individual exercises his right). What is advocated in principle, however, is not easily implemented.

How does one determine empirically if equal opportunity (access) has been achieved? Some people would make compensatory adjustments for differences in income, culture, or other factors that affect the likelihood of a subpopulation to seek and obtain higher education. Once such compensation is made it is assumed that any remaining difference in participation rates is the result of differing personal choices among individuals. If, however, certain subpopulations persist in participating at significantly lower rates than other groups, one might legitimately question how successful the effort was to identify and compensate for characteristics unevenly distributed among subpopulations which affect one's probability of attending a postsecondary educational institution. Frank Knight argued that it is not possible to equalize nonmaterial background characteristics of students through public policy

(Johnson, 1972, p. S282), and yet many social programs are advocated on just such grounds. The question remains of determining at what point people have been properly compensated for their disadvantages.

Without knowing all of the factors that affect attendance rates and without knowing how to weight these factors, such a compensatory policy gives inadequate guidelines for disbursing funds. An alternative approach is to begin at the other end. If we are not able to identify environmental or background factors affecting one's propensity to seek, or probability to obtain, an education, we might treat groups of individuals as the psychologist's 'black box' and adjust the costs levied upon various groups of individuals until participation rates are equal.[1] The underlying assumption of this approach is that personal taste for, and ability to benefit from, education are distributed similarly among subpopulations categorized by ethnicity, social status, sex, or some other characteristic. One may immediately consider the goal of equal access achieved through the equalization of participation rates, defined in such absolute terms, impractical. 'Achieving equal access' is realistically a relative concept. Complete equal access (in terms of participation rates) requires taking measures that most of us would consider undesirable. An exposition of the several means of achieving equal access completely will yield the point.

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[1] This is not to say that we might not prefer compensating for individual differences rather than equalizing participation rates, but until we know more about how individual differences affect attendance rates, some criterion is necessary for allocating resources which will satisfy the social demand for a greater degree of access.

Given that equal access is commonly measured in terms of the distribution of students by parental income categories, any of three policies could be pursued. Perhaps the most unpopular course, as well as least wise, would be to 'level down', reducing the proportion of higher income people in higher education to the same proportion as that of the lowest income group. Another possibility would be to leave the total number of students unchanged but change the composition of the student body by replacing higher income students with lower income students. The third and most costly option is to 'level up', increasing the participation rates of people to that of the highest income group. The 1970 Census reported that 66% of families with incomes of $15,000 or more and with college-age dependents had dependents in college on a full-time basis--more than four times as frequently as families with incomes of less than $3,000. The cost of raising participation rates of all income categories to 66% would equal the number of students needed to achieve such a level multiplied by the average cost per student. Restricting our estimate to collegiate education of full-time students, a 50% increase in enrollments would be required, entailing an increase of 1.85 million students. Institutional cost per undergraduate student is at least $2,000 per year, and the social cost of keeping the student out of employment might be approximately $5,000; the full societal cost of leveling up would run to some 11 billion dollars.[2,3]

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[2] Computations based on data given in Bureau of the Census, 1971, p. 21, and Machlup, 1972, p. 81.

[3] If noncollegiate higher education and part-time students were included, the cost would be greater, but might be offset by the number of students who would be unemployed if not in school and who therefore would have no foregone earnings.

If we were to equalize participation rates among types of institutions (as advocated by the National Commission on the Financing of Postsecondary Education) by leveling up lower income students, we would alter the structure of higher education and society. 'High-quality' educational institutions have a large proportion of high-income, high-ability students. Increasing capacity at these schools or creating additional schools to absorb the necessary number of lower income students to provide them similar representation as high-income families would require shifting vast amounts of resources into education from other sectors of the economy. Furthermore, if 'quality education' is defined as relative superiority, then achieving an equal distribution of categories of students among types of institutions requires a reduction in the number of high-income students attending high-quality schools. A redistribution of this sort--improving the position of some at the expense of others--has far different implications for social justice than a goal which has the semblance of making some people better off without making anyone worse off. In all likelihood, when we mention achieving equal access we mean improving the degree of equality of access to the point where actual differences in attendance rates among groups of individuals are no longer a social issue of any consequence. And that point, at which the desired level of equality is achieved, is simply a matter of consensus.

To this point I doubt that Mr. O'Hara and I have any disagreement. Discussion has been focused on efforts to equalize opportunity among subpopulations to obtain education. But that is only half the equal access issue. The other half involves allocating available resources among individuals within any subpopulation. Provisions of H.R. 3471 for allocating funds among individuals place unnecessary constraints

on students' freedom of choice and result in inefficient use of resources primarily through: (a) the formula for computing financial aid and (b) through the provisions for self-finance which imply a failure to properly recognize the various roles of self-financing programs.

Formulation for Determining Financial Aid

The Basic Educational Opportunity Grant (BEOG) program, in many respects the core of H.R. 3471, assists in getting 'bodies' into postsecondary education with only limited regard for the student's choice of an educational institution and without regard for the effort an individual is willing to make.

A $1,400 limit on the amount of the BEOG awarded means that anyone who seeks an education priced above $1,400 is at a disadvantage. A needy student who chooses to attend a low- or no-tuition school can have all his direct costs covered by the BEOG, but if the same person decides to attend another school that charges several thousand dollars for tuition, the student's full BEOG would cover less than half his costs. For some students the net effect is access only to particular schools, but access with limited choice is only partial access.

The failure to award grants on some basis of effort stems from the formula designated for computing financial aid: the price levied upon a student is independent of the amount paid by the student. If H.R. 3471 were adopted, the financial aid provided by a BEOG would equal (subject to the $1,400 ceiling and Congressional appropriations) the difference between a student's cost of attendance and his calculated,

expected contribution. The expected contribution is based solely on ability to pay, regardless of the cost of the product or service (education) purchased. Thus, a person with an expected contribution of $100 can as easily afford an education priced at $100 as one priced at $1,000, and would pay the same amount for either. Under this formula, moreover, there is a strong tendency not to obtain an optimal amount of education since a person willing to pay a certain fixed amount for an education can purchase more or better education (if price bears a constant relation to cost and cost translates into better or more education) without paying any more. Thus, there is a tendency for a student to choose more costly education than he would if his share of cost bore a constant relation to cost of attendance. The wastefulness of this method for determining aid lies in society's allocation of resources to education that could better be spent on other investments. Optimality, from an investment perspective, is achieved when the value of spending an additional dollar on education is the same for society and the individual. At that point each will bear costs in proportion to benefits each receives from the education. As long as the student's costs are invariable while costs to society vary, we know that the purchase of an optimal amount of education is unlikely.[4]

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[4] Even if costs to both society and the individual were constant, problems of measurement would still prevent our determining precisely whether or not an optimal amount of education is achieved. Shortcomings in evaluation and calculation of a student's foregone earnings, the consumptive value of education, and the costs and benefits associated with products jointly produced in higher education underscore our current inability to assess how closely expenditures approximate an optimal level of investment.

What the BEOG does achieve, although inefficiently and with considerable sacrifice of the student's freedom of choice, is to allow some needy persons to receive at least some kind of postsecondary education. The proposed Supplemental Educational Opportunity Grant (SEOG) program is more in keeping with the concept of equal access to the extent that a student is not financially predisposed in his selection of a school. It enables a qualified low-income student to attend whatever school he prefers because it covers all of his costs. However, the proposed SEOG is merit-based and limited to needy students, and a common argument is that scholarship funds are generally available for low-income people who have high ability. While the $200 million authorized under H.R. 3471 could approximately double the number of students from the lowest income quarter of the highest ability quintile, these students would represent only slightly more than 1% of all who graduate from high school and only certain extreme sectors of the population.[5] It is certainly to society's credit that we can afford to send a high-ability student to Harvard, and it is to society's advantage to educate individuals with high potential in the hope of their making productive contributions to society. A program such as the SEOG, however, would not encompass the majority of people who do not have exceptional talent, but who nevertheless would benefit from further education. For people who may prefer to attend something other

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[5] Computation based on data given in "Higher Education Opportunity and Achievement in the United States" by Robert H. Berls, The Economics and Financing of Higher Education in the United States, A Compendium of Papers Submitted to the Joint Economic Committee, Congress of the United States, 91st Congress, 1st Session (Washington, D.C.: Government Printing Office, 1969), p. 150.

than a low-tuition institution but do not have the ability to attend Harvard, a moderately priced education is not a moderate financial undertaking. These people, who lie at neither extreme of the distribution curve of wealth or ability, may make relatively the greatest sacrifices to attend an institution of their choice.

Means of Self-Finance

Although loan programs have been criticized as frequently as the College Work-Study (CWS) program has been praised, the proposed legislation to eliminate two of the three present loan programs and probably double the funds for CWS[6] is a simplistic solution. The two means of self-finance should not be considered substitutes for one another (as one might infer from the changes proposed in H.R. 3471) but different mechanisms which together provide greater flexibility in meeting student needs than either program alone. Loan programs, despite administrative replication and questionable duplication of purpose, do not serve entirely the same function. Guaranteed Student Loans, which must be sought in the marketplace, 'work' well in the sense that the default rate on loans is only a third that for Federally Insured Student Loans (FISL) (Education Daily, August 1975, p. 6), but availability of funds fluctuates and some students do not qualify for these loans. The National Direct Student Loan (NDSL) program provides a reliable source of federal

[6] The actual amount of funds that will end up in CWS depends upon how the SSIG funds are spent. H.R. 3471 authorizes $480 million (compared to $300 million appropriated in fiscal year 1975) specifically for CWS and any portion of the $200 million authorized for SSIG could also be channeled into CWS.

funds and gives priority to many of those students most unlikely to obtain a loan in the market.

Eliminating the NDSL and FISL programs places an even greater burden on the Guaranteed Student Loan Program (GSLP) to meet the needs of students. Without a loan to pay what one may advocate as the student's 'fair share' of educational costs (plus whatever costs fall upon the student as a result of the difference between the amount required to fully implement a policy and what is actually forthcoming in appropriations) a student may not be able to attend his choice of institution although he would gladly incur the debt to do so.

One view maintains that loans are not necessary because CWS programs are available; however, they may provide insufficient funds. With limited CWS funds and the legislated stipulation that funds be "reasonably available . . . to all eligible students in the institution who are seeking such employment" (H.R. 3471, p. 83), CWS funds must be rationed. By definition this implies a shortage of aid under this program and again emphasizes the need for a reliable supplementary source of student financial aid. More importantly, there is a practical limit to the amount of money a student can earn, given that a student with a full schedule may not afford many hours per day or week for employment.

If sufficient funds were available to meet all student aid through CWS, there is still good reason to offer the student a choice of financing schemes. I take issue with Mr. O'Hara's statement that "Students . . . would rather earn their education than be given it or borrow to pay for it" (Congressional Record, 1975, p. H968). I believe that it would be a rare student who, if told that he had received a scholarship to cover all of his educational costs,

would refuse it on the basis that he would rather earn the money to pay for his education. Whether a student would rather earn (pay out of current income) or borrow (pay out of future income) to cover his costs is less certain. Considering one's time preference for income, interest rates, debt aversion, the distribution of costs for non-educational items as well as for education, and expected future income, it is not at all certain that students would consistently prefer one method over the other.

A statement supporting the existence of loan programs should not necessarily be inferred to advocate heavier use of student loans. At the same time, the recent and justifiable criticism of student loan programs is not sufficient reason to reject them as a valuable option. The current mess can better be cleaned up not by curtailing loan programs as proposed in H.R. 3471 but by confronting the problems of adequate structure and administration. Loans provide an important option for students and need not be an additional cost to society.

A Reasonable Alternative?

Selection of a criterion for allocating resources for higher education among individuals by some norms, for example on the basis of merit, is a relatively straight-forward task. For achieving equal access, the choice of a criterion is not as obvious.

Holding that education is a right, we reason that a person should be allowed to attend a postsecondary educational institution as long as he can benefit from the experience, but with no clear guideline to judge what benefits one receives from education, we leave to the individual the decision of determining for himself

the worth of the education. Forced to allocate limited resources, it seems reasonable and equitable to provide assistance, under the goal of improving equal access, in proportion to a student's preference for education as revealed by the effort he is willing to make, given his ability to pay. In practical terms, aid should be related to the difference between one's educational costs and expected contribution. Undoubtedly much turns on the calculation of expected contribution, but conceptually this formulation takes into account preference for education (letting those attend who most want education) without placing a disproportionate financial constraint upon any particular choice of institution the student may make.

A clear distinction should be made between achieving equal access by equalizing participation rates and the means of allocating resources among individuals. The former is a means of insuring that groups of people with social or economic disadvantages participate proportionally. The latter is an entirely separate process that involves selecting individuals within a group.

Various means of allocating funds among individuals should be further distinguished. Affirmative action and merit-based programs, to name two popular programs, aid particular categories of students, those with certain ascriptive or acquired characteristics. Equal access, as a concept, is unconditional. It is based on the principle that each individual as a human being is entitled to postsecondary education. With each person free to decide how beneficial an education may be for himself, society can most efficiently and fairly proceed toward the goal of equal access by distributing the resources that it has to achieve that goal proportional to the financial need of a student--calculated as the student's cost of attendance minus his expected

contribution--letting differences in individual preferences serve as the mechanism to determine who will obtain (more) postsecondary education.[7]

In terms of a formula for financial aid, the federal government should grant a predetermined percentage[8] of the difference between a student's full cost of attendance and an expected family contribution based on a formula of ability to pay or earn.[9] A student's full cost of attendance would

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[7] The bookkeeping of attributing costs to the advancement of particular goals becomes complicated when more than one goal is achieved jointly, as for example, when high ability students are also those willing to make the greatest relative financial effort. The more the overlap of goals, however, the greater the funds available for achievement of either goal.

[8] The percentage figure which would correspond to the federal funds available for the program would be established through trial and error as revealed preferences of students deciding to purchase education became apparent.

[9] This type of financing program creates an incentive for suppliers of education to price more nearly at cost, although we may still prefer to continue some institutional subsidies through taxes. Evidence indicates that a policy of full-cost pricing for undergraduate education (assuming it is produced independently of graduate training and research) might achieve the same educational and societal goals with as much as 25% less money. See "A New Approach to Higher Education Finance" by W. Lee Hansen and Burton A. Weisbrod in Financing Higher Education: Alternatives for the Federal Government, edited by M. D. Orwig.

include direct expenses, such as tuition and fees, and indirect expenses, primarily foregone earnings. Commuting costs would be included in the former; board and room would be covered only to the extent that average cost at school exceeded cost at home.

For example, if average foregone earnings of a full-time student are estimated to be $6,000, a student who chooses to go to a resident school which charges $500 for tuition and related expenses and another $500 for room and board expenses (above that which the student would incur if he did not attend), total cost of attendance for the student is $7,000. And if we assume that the predetermined percentage of financial need that the federal government will support is 20%, then the grant to the student would be 20% of the difference between $7,000 and a calculated expected family contribution. The criterion for determining the family contribution could theoretically include and weight whatever factors planners prefer. If the expected contribution for a family with an income of $15,000 is $7,000, it would receive no federal grant and would be responsible for the student's full cost of attendance. The out-of-pocket cost would be $1,000. If the same individual, however, decided to attend a more expensive school that charged a tuition of $1,500 then the student would receive a grant of $200 (20% of the difference between $8,000 and $7,000).

In considering a proposal of this kind, two criticisms are often raised: aid based on income level does not sufficiently benefit the poor and such a program requires students to take large loans.

The first argument is that any expenditure, even if proportional to one's (parents') income, requires a greater sacrifice on the part of a poor person. For a person with a low income any disbursement for

education may be unfeasible, but the expected contribution schedule can be established on a scale that relieves such persons from paying. Pursuing the argument further, one may say that even without paying anything for an education, there is the cost of not receiving what a student could earn if he were employed instead of attending school. Inclusion of foregone earnings as a cost to the student, however, partially alleviates this disadvantage. If the expected contribution from a family with an income of $4,000 is zero and the student attends a school where direct cost is $1,000 then he (or his family) would receive $1,400 (20% of $7,000) to cover all of the student's direct costs and partially compensate for foregone income. If the choice were to attend a school charging $2,000, $1,600 of the student's total costs would be covered by a government grant. While the grant would no longer cover any portion of foregone earnings, it is expected that a student will bear a larger portion of the cost of an expensive education but not a disproportionate share of the larger outlay.

One additional refinement (resembling a negative income tax) is necessary to maintain throughout the range of values the same relation between the student's calculated financial need and his expected contribution. If the latter declines as income decreases and if the expected contribution becomes zero at some positive income, then the student (or his family) would receive an additional sum if his income falls below that level. With compensatory provisions for both foregone earnings and for very low income, a poor student need not be precluded from attending the postsecondary institution of his choice.

The second common criticism is that many students would have to incur heavy debts through borrowing to meet their costs and that people, especially

disadvantaged people, are afraid of taking large loans.

As a clarifying point, it is important to emphasize the need for a loan program to guarantee availability of loan funds for financing educational costs and to explain the nature of present loan programs. Part of the cost and difficulty of providing sufficient loan funds in the past has been that loan programs have been heavily subsidized so that a 'loan' actually is part-loan, part-grant.[10] While we may not want to sever this relation altogether, there seems little reason to confuse the 'bookkeeping' involved in loan schemes for higher education by providing interest rate subsidies to the borrower. H.R. 3471 offers a welcomed simplification in the computation of the special interest allowance given the lender, to make investment in loans sufficiently attractive, by tying the allowance to the rate on 90-day Treasury bills. A similar stipulation should be made for the student. As inflation becomes more serious it is necessary to realize that the student is not borrowing a certain number of dollar bills as much as a certain amount of purchasing power.

For the disadvantaged family that is particularly averse to debt financing, an adjustment could be made in the way its expected contribution is computed. In fact, if we adhere to the notion of education as a right, the schedule of expected contributions should be established to compensate for all factors unequally

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[10] The 'grant' results from setting an interest rate on loans that may be less than the market rate and in providing grace periods during which repayment on the loan is postponed without penalty. Stephen K. Bailey has pointed out that under the GSL program part of the grant also accrues to the banks making the loans.

distributed among the population and which affect attendance at postsecondary educational institutions.[11]

To the main criticism that a loan may be too overbearing, the only answer is that it may well be more than a person is willing to bear. But that brings us to the crux of the issue. Education is expensive and resources available for education are scarce. Students who are not willing to bear the necessary cost of the loans are indeed victims of society's unwillingness to provide greater support for access to higher education, but, for whatever level of funding society chooses, this plan allows those who most want education to obtain it and without placing a disproportionate burden on a student choosing one type of education over another.

For anyone who may doubt the necessity of using available funds more effectively, a quick look at Congressional appropriations should suffice. Appropriations for the BEOG program, the mainstay of the bill promoting equal access, were only $122 million in 1972-1973, the first year of the program, and yet it has been conservatively estimated that $1.7 billion would be required to fund the program fully

[11] An exception is ability. For a severely under-endowed individual, no amount of money will allow him to benefit from conventional higher education. As Johnson (1972, p. S289) has suggested, society may give these people an outright grant to compensate for inability but such action addresses the issue of equalizing income, not the opportunity to educate oneself. If we insist upon allowing those to attend who make the greatest relative effort then the solution regarding low ability people is to expand the sphere of postsecondary education to include types of institutions that are able to serve them.

(Sloan Study Consortium, 1974, p. 26). The $660 million appropriated in 1974-1975 represented a sizeable increase but still far short of the mark, and no increase in appropriations for BEOG is made in H.R. 3471.[12] With the participation rate[13] increasing and costs rising, more than $1.7 billion will be required to fully fund the program.[14] It may simply be that the demand upon resources for other objectives is too severe for society to afford significantly more funds to achieve greater access underlining the need to reassess continually the basic provisions of legislation and not be content merely to refine them.

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[12] Indirectly through the State Student Incentive Grant program (SSIG) additional funds are available, but even if all SSIG funds went into the BEOG program, an unlikely possibility, total BEOG funds would be $1.06 billion.

[13] The participation rate is "that percentage of the number of enrolled students nationally who are theoretically eligible for a BEOG award and who apply for and receive assistance under the program." The participation rate was 51% for the first two years of the program. For 1975-1976 the rate is estimated at 56%. Source: Consortium on Financing Higher Education, **Federal Student Assistance: A Review of Title IV of the Higher Education Act** (Hanover, New Hampshire: Consortium on Financing Higher Education, 1975), pp. 6 and 79.

[14] Some advocates say that the maximum BEOG should be raised from $1,400 to $1,800 or even $2,100 to cover the cost increases since BEOG was established. Source: **Education Daily**, June 12, 1975, p. 5 and July 17, 1975, p. 5.

MAINTAINING A VIABLE EDUCATIONAL SYSTEM

The other major societal goal for which H.R. 3471 bears serious consequences is the encouragement of a viable postsecondary educational system, diverse and responsive, to meet the broad and changing interests and abilities of students seeking postsecondary education, and responsible, to provide satisfactory service to the student as consumer. A viable system requires diversity, not just in curriculum, but also in degree of institutional autonomy, means of finance, and administrative organization. The responsibility of the federal government to insure that a favorable environment exists which fosters diversity of institutions is primarily executed through its distribution of funds to educational institutions. The profile of the distribution depends upon: (a) disbursement of funds among eligible institutions, and (b) the sectors of the postsecondary educational system eligible to receive funds. We will examine separately the provisions of H.R. 3471 related to disbursements and eligibility that affect the degree of diversity.

Distribution of Funds among Eligible Institutions

H.R. 3471 affects the distribution of federal funds among institutions in three ways--elimination of the half-cost limitation, specification of the CWS program and the program's dominance over other means of self-finance, and stipulation of the uses and computation of a state's share of State Student Incentive Grant funds--the primary effect of which is harmful both to diversity in higher education and to the efficient use of funds. The BEOG program as presented in H.R. 3471 discriminates against two types of schools--those that tend to price at cost and,

given a similar pricing policy, more expensive schools. For the student attending a low-priced school, the BEOG, which covers up to $1,400 of direct costs (excluding expected family contribution), may well cover all or most of his direct costs. For the student attending a school that charges several thousand dollars, at best, only a fraction of direct costs are covered. Many students who might prefer to attend a higher priced school, such as almost any private school but also many public schools, may choose instead a low-tuition school, frequently a state or community college, because the financial savings to the student is of greater value to him than his preference for the particular school. To the extent that this occurs, students are encouraged to put up with a limited diversification of educational options. Diversity within higher education is reduced further as schools charging more than the maximum BEOG grant suffer declining enrollments and find even survival increasingly difficult. Because overhead costs must be shared by a declining number of students, the school may eventually be forced to close, not because its students have switched to lower tuition schools, but because the revenue from the remaining students does not sufficiently contribute to the school's costs. When schools close under these conditions the students who would have preferred to remain must accept a less preferable alternative.

The impact of this relative financial barrier upon enrollments and the closing of schools is partially illustrated by the fact that twenty-five years ago enrollments were evenly distributed between public and private institutions of higher education; by 1973, three-fourths were enrolled in public colleges and universities (Newman, 1973, p. 52 and Carol Van Alstyne, 1974, p. A-35). From 1960 to 1966 more than three private colleges closed for every public college that closed, and in subsequent years

the ratio has risen to more than four to one (National Commission, 1973, p. 196).[15]

It is argued sometimes that the damage to private colleges is overstated, that the increase in enrollments at public colleges reflects the rapid expansion of two-year community colleges--a type of institution that supposedly attracts many students who otherwise would not attend--but from 1967 to 1973 there was a decline in enrollment in two-year private colleges although enrollment in all two-year colleges nearly doubled during the same period. For university enrollment, where the claim for noncompetitive expansion of community colleges does not apply, private universities lost some of their market share. In 1967 private universities had 27% of total university enrollment; in 1973 the percentage was 22% (Van Alstyne, 1974, p. A-35).

The provisions of H.R. 3471 would aggravate the plight of private schools by reversing earlier legislation. The Educational Amendments of 1972 stipulated that the BEOG could not exceed half of a student's costs, effectively doubling the range of

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[15] We ought to mention for clarification that the issue of dominance in higher education by particular types of educational institutions should not be confused with what is called the 'financial crisis' in higher education--a phenomenon affecting all types of schools. The financial crisis is a result of costs rising more rapidly than revenue that has been affected by a reduction in growth of tuition revenue caused by a decline in the growth rate of enrollments and a decline of tax and other non-tuition revenue caused by the recent recession. The erosion of high-tuition institutions, especially concentrated in the private sector, is a separate matter although the financial crisis speeds the process.

tuition over which students were treated uniformly with respect to financial aid. A student with no family contribution would have to attend a school with student costs of $2,800 in order to receive the maximum BEOG. (Actually no one receives the maximum entitlement; appropriations are less than aggregate entitlements and awards are pro-rated.) H.R. 3471 eliminates this half-cost limitation. For the student attending a private school, the incentive to switch to a public school occurs not through any change in the amount of the grant he receives in attending the private school, because his costs are probably high enough to qualify him for the maximum grant with or without the half-cost limitation, but by the reduction of cost to the student of many public institutions.[16]

Another argument, offered by those who believe that reduction in diversity is not a serious matter, is that private schools attract students who will attend regardless of the price or the difference in price between public and private schools. This statement seems extreme on two counts.

First, while some students will make the same choice of school in the face of rising tuition, enrollment is not inelastic to price. A study of a group of 'high quality' private colleges and universities indicates that despite a rise in average

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[16] The shift in enrollment among types of institutions resulting from elimination of the half-cost limitation is not known, but the College Entrance Examination Board has provided an estimate that there would be a 1% shift of BEOG funds from private colleges to two-year public colleges if H.R. 3471 were enacted. (Information obtained through Lois D. Rice, Vice President of the College Board, from unpublished staff papers.)

tuition from $1,494 in 1961-62 to $2,780 in 1971-72 demand for places has not yet been reduced (Sloan Study Consortium, 1974, pp. 13 and 194),[17] but the schools have made or will have to make changes in their operations which may affect demand. The Sloan Study Consortium makes a convincing case that aside from certain one-time changes to reduce expenditures, the gap between revenues and receipts will have to be closed partially by increasing the student's share. To ease this burden, schools have dipped into unrestricted funds to provide financial aid for students. This use of funds generally designated for other purposes probably cannot continue without detriment to the particular type of education that attracts students to these schools.

Second, not all of the students who attend expensive, private, 'quality' schools are able to pay their own costs. Quite the contrary, member schools of the Consortium accept a commitment to "the opening of higher education to the most able in society regardless of economic, ethnic, or racial background" (Sloan Study Consortium, 1974, p. 36). In 1970-71, two-fifths of the students at these schools were on scholarships[18] (Sloan Study Consortium, 1974,

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[17] The members of the Consortium are Amherst, Brown, Dartmouth, Harvard, MIT, Mount Holyoke, Princeton, Wellesley, and Wesleyan.

[18] The high percentage of students receiving financial aid from the schools is not intended to suggest that a relative proportion of their students come from low-income families. Private schools draw only half to a third as many of their students from the lowest income quartile as public schools but the average amount of aid that must be supplied a low-income student attending a private school prohibits a private school from aiding as many

p. 37). Between 1967 and 1972 at public universities and four-year colleges the percentage of students coming from the two upper income quartiles rose while the percentage coming from the lower two quartiles decreased. The Sloan Study Consortium slightly increased the proportion of its students coming from the lowest income quartile (Sloan Study Consortium, 1974, p. 95). Even though a diverse, heterogeneous student body brings benefits to the individual student, to the institution, and to society, expenditures of these private schools in adhering to a policy of equal access have represented, until the recent sharp increase in operating costs, an increasing portion of the schools' budgets.

In addition to the discriminatory impact of the BEOG, another provision of the bill, the dominance of the CWS program over other means of self-finance, although less explicit in its impact, may shift the distribution of aid further to public school students. Part-time students attend community and state colleges more frequently than universities and private colleges and have considerable time available for employment. Most students in private schools, however, attend full-time and have less time for employment under the CWS program. In deciding to attend full-time, a student should, of course, take account of the restrictions on his earning ability, but making that decision should not prevent him from executing his choice. For the student unable to avail himself of the CWS program, there should be an alternative, such as a loan, for financing educational costs. As there may well be students who are unable to obtain loans

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low-income people as can be done with the same number of dollars in a public school. The high percentage of scholarship students is a reflection of need as well as low-income and a reflection of the schools' policy concerning their student body mixture.

under the GSLP, inequity in the provisions for self-finance arises not so much from the CWS program per se as from reducing the means available for obtaining aid to a program that is only truly available to some.

The largest relative change in dollar allocation in H.R. 3471 is the ten-fold increase in appropriations for the State Student Incentive Grant (SSIG): $200 million will be available for 50-50 matching by the states. Exactly how these funds will be distributed between public and private schools is not specifically defined, leaving to individual states the decisions of allocation, but the greater portion of the aid, presumably, will go to public schools.

While the 1972 provision for SSIG stipulated that all funds be used to expand the BEOG program which supported students at public and private schools, H.R. 3471 extends possible uses of the funds to include grants, the CWS program, and "providing additional capacity for enrollment of students at public institutions of higher education which do not charge tuition or fees" (H.R. 3471, pp. 12-13). Given the popularity of the CWS program, it seems reasonable that states may channel a substantial portion of their SSIG funds into it, raising some doubts, as just mentioned, about the fairness of the resulting distribution. More critical is the provision allowing funds that were previously committed to student aid to be spent for capital expansion and then limiting the expansion to public schools that do not charge tuition or fees. Not only could a provision of this sort sorely reduce needed student aid, but it restricts diversity (or encourages diversity in undesirable directions).

The formula for computing a state's share of SSIG funds also favors low-tuition institutions. Basing

the amount of state aid on an index of 'effort' is reasonable, but why favor states with large public sectors of institutions charging low tuition. 'Effort' is computed for each state by multiplying the ratio of net state outlay (state expenditures for institutions of higher education plus state expenditures for student aid, minus tuition received by the state) to total personal income for the state by the ratio of the student population to the total population. The state with the highest 'effort' becomes the base for computing the proportional share for each state. Expenditures are defined in terms of the revenue spent on education, implied by the numerator of the first ratio of the effort index. Yet, given this formulation, a state may actually make a greater effort (per capita expenditure per student adjusted for personal income) than another state and still receive less money.

Increasing Eligibility

To this point we have discussed the impact of H.R. 3471 upon diversity in terms of how federal funds for student financial aid would be distributed among existing institutions. Diversity within the sector of higher education could also be increased by expanding the eligibility of students and institutions to participate in federal programs.

The definitions of institutional and individual eligibility were significantly expanded in the 1972 Amendments. Proprietary schools were acknowledged to be a 'legitimate' subsector of postsecondary education,[19] and half-time students became eligible

[19] Proprietary schools have participated for a number of years under specific federal programs but

for many programs. The expanded eligibility established in 1972 remains essentially the same in H.R. 3471 but attention should be directed to three specific provisions of the bill dealing with eligibility that discourage the development of a more flexible, viable educational system.

First, the inclusion of proprietary schools is not unequivocal. H.R. 3471 defines 'eligible institution' as an educational institution that meets all of the following criteria:

(1) admits as regular students only those persons with a high school education (or the equivalent) or who are at least 18 years old or are in an area vocational school;

(2) is licensed within the state in which it operates;

(3) offers a program of training or education that is at least six months in duration for which the school: (a) awards an associate, bachelor's or postgraduate degree, or (b) prepares students for gainful employment in a recognized occupation or profession;

(4) is accredited by a nationally recognized accrediting agency;

(5) has been in existence for at least two years, except for purposes of eligibility under the BEOG and SEOG programs. (H.R. 3471, pp. 107-108)

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they were not considered en masse by all government agencies as a part of the postsecondary educational system.

According to the third criterion, proprietary schools, many of which do not offer degrees, must offer training that prepares one for 'gainful employment', a requirement which seems arbitrary. Undoubtedly much turns on how one interprets 'gainful employment': does a person in a community college taking a program of instruction not considered 'employment oriented' warrant greater support than a person taking a similar program in a proprietary school? If we are willing to let each individual decide whether and how he stands to benefit from postsecondary education and to provide educational entitlement grants to those people, it seems presumptuous to dictate that some schools must offer education that prepares one for employment to be eligible. As the taxpayer's protector, the government has an obligation to insure that public dollars are spent well, and that obligation extends to insuring that a school provides fair value for money received. Licensing and accreditation, despite many practical faults, in principle meet that test, but the 'gainful employment' stipulation lacks this conceptual justification.

Second, H.R. 3471 eliminates eligibility of students at correspondence schools, except for persons who are physically handicapped or not able to attend a classroom because of geographical location. The rationale given by Congressman O'Hara for excluding correspondence schools was that "those who need [correspondence schooling] are either those who simply cannot physically get to a classroom . . . or those who are already working full-time and should therefore not be in financial need" (Congressional Record, 1975, p. H969). There may be valid reasons for denying eligibility to students at correspondence schools but convincing reasons are not provided in this statement. The phrase "those who need it," suggests that 'normal' people prefer to receive instruction in the classroom, yet for some people this may not be a very efficient

means of schooling nor one that they prefer. The second half of the statement suggests that working people are not 'needy' (with respect to meeting educational costs), but, as the bill states, 'need' is only partially a function of income, depending also upon the number and student status of one's dependents, extraordinary expenses, and the educational cost to the student. A person enrolled at a correspondence school could have greater financial need than one who is attending on a campus. The qualification of a correspondence school student for aid can be determined when he applies; there is no a priori reason for excluding an entire group.

And third, to require that a course of study be at least six months in duration seems at best arbitrary and at worst to reward inefficiency. If a school is able to package all of the essentials of a course of instruction into a shorter period of time, saving both the student and the school valuable resources, why should a school be encouraged to stretch its program to meet eligibility requirements. There may be programs of instruction that do not warrant support, for example where the cost of administering aid is greater than its amount, but the appropriate criterion should be related to the cost of a program, not its length.

Protection of the Student as Consumer

Maintaining an educational system that is accountable, in terms of acting responsibly toward the student as consumer, is potentially an important topic, but H.R. 3471 says very little about it, and what the bill does say is vague, making a meaningful analysis impractical. It would, however, be an oversight not to commend the well-intentioned legislative effort.

In furtherance of protecting the consumer, H.R. 3471 stipulates that for an institution to receive aid under Title IV the institution must do the following:

(1) establish a fair and equitable refund policy;

(2) make a "good faith effort" to inform prospective students of the programs, instruction, facilities, faculty qualifications, and rates of student completion, and if the school makes any claims regarding benefits of the training, to provide data on employment and earnings of its graduates;

(3) furnish a written statement of all charges to a student for the program, and

(4) "provide assurances . . . that the availability of assistance to students at the institution under this title has not resulted, and will not result, in an increase in tuition or fees" (H.R. 3471, pp. 110-111).

These conditions are commendable, and their universal application to all institutions receiving Title IV funds is the most even-handed provision in H.R. 3471. However, given the history of previous federal intervention on behalf of consumers, we ought to proceed cautiously. A program cannot be evaluated properly without taking into account the cost of providing the additional information and the benefits obtained by having that information at the time of purchase.

The costs involved should not be taken lightly. Stephen K. Bailey, vice-president of the American Council on Education, recently reported on the high cost of complying with federal regulations imposed upon educational institutions to meet societal goals. "At a medium-sized private institution, the costs were $2,000 in 1965 and $300,000 in 1975. For a large, public university they were $438,000 ten years ago and $1,300,000 now" (The Chronicle of Higher Education, 1975, p. 1). Self-supporting schools are particularly vulnerable to these kinds of costs, for they must cover their costs with revenue raised in the market. The cost of compliance may be passed to the consumer, but if the owner of a school is not able to pass the additional costs to the purchaser, he must reduce the quality of his product or go out of business, and this diminishes opportunities for students. The student 'pays' for the information in one way or another.

There also are the costs of monitoring compliance: the creation and support of a regulatory agency supported by taxes. Every program designed to protect the consumer from fraud or misrepresentation should be considered carefully, and the benefits from regulation should outweigh the costs. And that is the problem.

Very little is known of the benefits derived from providing consumers more information. Decisions to purchase may rest on information other than that which agencies were established to collect, or consumers may have such strong preferences that additional information will not deter them from making independent purchases. Congress in the late 1960s passed the Truth in Lending Act in the belief that "informed use of credit . . . arises from an awareness of its costs. If lenders were required to tell borrowers exactly what credit cost, the borrowers could shop around and get the lowest rate" (Clark,

1975, p. 10). A survey taken more than a year after the act went into effect showed that "21% of the individuals who bought new cars on time had no idea what interest rate they were paying. An additional 35% gave unrealistically low estimates of 7% or less" (Clark, 1975, p. 10). The fact that 56% of the buyers received little benefit from this legislation for consumer protection may be a mark of the bill's ineffectiveness or conversely of its success in informing 44%. The very ambiguity of the results suggests the wisdom of careful evaluation of such programs before large scale adoption.

Congressman O'Hara, in authorizing $50 million for research for specific issues, said that money "expended on controlled experimentation would be a very valuable investment" (Congressional Record, 1975, p. H969). I agree, but could agree more strongly if an examination of the value of information programs were included in the issues specified for support.

A CONCLUDING REMARK

While H.R. 3471 was designed to serve many purposes, my intention was not to review the entire bill, but to evaluate how well it promotes achievement of two specific societal goals: improvement in the degree of equal access of students to higher education and the encouragement of a viable postsecondary system. It appears that the bill does little to further these goals, and, in fact, neutralizes some of the progress made in the Educational Amendments of 1972. The bill offers nothing to encourage greater institutional diversity and in some instances it is positively harmful, discriminating against high-tuition schools and schools that price at cost.

The bill does include provisions for protecting the student as consumer, but they amount to little more than a recognition of the issue. Legislation in this area has great potential--both harmful and beneficial--and given our meager knowledge of the value of information programs, hope should be no greater than despair until we learn more about the costs and benefits of such programs.

Regardless of how well the bill may realize Mr. O'Hara's immediate purposes, H.R. 3471 is an important vehicle for achieving societal goals, and its merit must be judged by its impact on broader social issues. In so far as the bill enables more people to obtain some kind of postsecondary education, it promotes greater access; however, by using "the leverage of Federal student aid in such a way as to encourage the creation and utilization of low-cost educational opportunities" (Congressional Record, 1975, p. H966), the bill, in design and implementation, leads us toward a kind of access that is neither equitable nor efficient.

WILLIAM D. HYDE, JR.

APPENDIX A

Major Provisions of H.R. 3471

Introduced through the Educational Amendments of 1972, the major provisions for student financial aid for higher education are contained in Title IV of the Higher Education Act of 1965. Originally set to expire on June 30, 1975, the Act has been extended for one year. H.R. 3471, the Student Financial Aid Act of 1975 (now 1976?), was written to amend Title IV. The major provisions of the bill may be conveniently, although not entirely accurately, categorized into grant programs, self-financing schemes, and general provisions.

Grants

Generally considered the most important part of the bill, the Basic Educational Opportunity Grant (BEOG), an entitlement grant, provides up to $1,400 for four years, minus an expected family contribution, to cover a student's cost of attendance at an eligible institution of higher education. The family contribution is computed as a function of income, number of dependents, number of dependents in postsecondary education, and unusual expenses. Cost of attendance is the actual money spent by the student in attending school: it includes tuition, fees, cost of books and supplies, and board and room or commuting fare if the student lives at home. The Supplemental Educational Opportunity Grant (SEOG) program provides grants, first on the basis of need and then merit, to students eligible for BEOG's who show "outstanding academic performance" in secondary school or "clear promise of such performance" (p. 10). The grant covers the same expense items as the BEOG, less the

family contribution and the amount of any BEOG received. The BEOG program has an authorization of $660 million in fiscal year 1977 and the SEOG program, $200 million.

State Student Incentive Grants (SSIG) offer $200 million of federal funds to the states on a 50-50 matching basis for providing students with grants or work-study opportunities or for creating "additional capacity for enrollment of students at public institutions of higher education which do not charge tuition or fees" (p. 12-13). Each state is free to determine for which activity the funds are spent, and the state must match the federal funds with 'new' money, funds in addition to those already in existence for student aid programs. The allocation of federal funds among states is based upon an effort index.

Self-financing Schemes

A loan program and the College Work-Study program are the two mechanisms offered in H.R. 3471 to assist a student in meeting the direct costs he must pay. H.R. 3471 terminates the Federally Insured Student Loan (FISL) program and the National Direct Student Loan (NDSL) program, leaving the Guaranteed Student Loan Program (GSLP) as the sole student loan program which is designed to "encourage States and nonprofit private institutions and organizations to establish adequate loan insurance programs for students in eligible institutions" (p. 26). Loans to any individual are limited to $5,000 for an undergraduate and $10,000 for a graduate. Interest charges to a student cannot exceed 7% per year and are waived for certain periods of further schooling or particular after-school service if a student's family income is less than $15,000 or greater than that amount and the family has substantial need.

To aid banks and other lenders in making funds available under the GSLP, the federal government pays the lender a special interest allowance to reduce the difference between the cost of money as determined in the market and the 7% interest charged students. Loans are insured up to 80% of the unpaid principal.

The CWS program, financed on an 80-20 matching basis, is designed to "stimulate and promote the part-time employment of students in eligible institutions who are in need of the earnings from such employment to pursue courses of study at such institutions." Work performed under the program must be done for the institution which the student attends or in the public interest in public or private non-profit organizations. Each state's allotment of funds is proportional to its full-time enrollment equivalent. For fiscal year ending September 1977, $480 million has been authorized. Work made available to students must not involve displacement of employed workers and the students must be paid at least the federal minimum wage. As with the SSIG, the matching funds, supplied by the school for CWS, must represent new money; that is, a school must continue to spend its own scholarship and student aid funds at a level no less than the average of such expenditures per year for the past three years.

General Provisions

The general provisions include definitions of 'eligible' institutions and individuals and several stipulations with which each school must comply in order to receive funds under Title IV. The major condition is that a school must establish a "fair and equitable" refund policy and provide the student with certain information about the school, its facilities

and student performance. The specifics are addressed more fully in the text.

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